

## MEMORANDUM

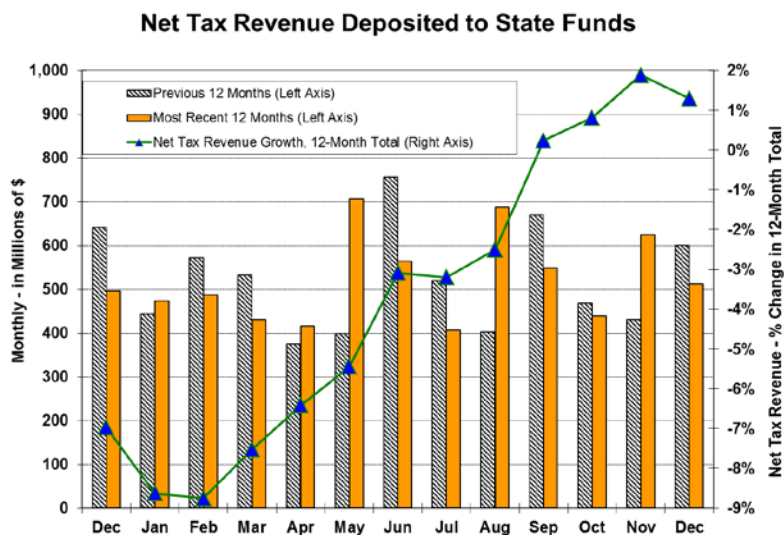
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: January 31, 2011

### Twelve-month Total Net Tax Receipts Through December 31, 2010

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending December 2010 with comparisons to the previous twelve months. December 2009 to December 2010 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

At \$512.3 million, December 2010 net tax revenue was 3.3% above December 2009. The 12-month growth rate slowed this month, but remains positive at 1.3%. At \$6.299 billion, annual revenue is about equal to a level first achieved 41 months ago (August 2007 = \$6.296 billion), and is currently 6.8% below the November 2008 net revenue peak.

## Month of December Comparison

December net tax receipts totaled \$512.3 million, an increase of \$16.4 million (3.3%) compared to December 2009. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$12.2 million, 5.4%) – Withholding tax deposit growth was strong in December.
- Sales/Use Tax (positive \$13.1 million, 9.3%)
  - Road Use Tax Fund use tax/fees for new registrations have now been positive in eight of the past nine months.
  - General Fund sales/use tax receipts increased \$10.5 million with 6.7% growth in gross revenues offset somewhat by an increase in tax refunds paid.
- Corporate Income Tax (negative \$5.9 million, -19.5%) – Gross corporate income tax receipts decreased \$8.3 million while corporate refunds decreased \$2.4 million.
- Fuel Tax (negative \$0.9 million, -2.1%) – Lower gross fuel tax receipts were offset somewhat by decreased fuel tax refunds.
- Cigarette and Tobacco Taxes (negative \$4.6 million, -22.8%) – The large drop was likely due to deposit timing issues.
- Gambling Tax (positive \$0.1 million, 0.4%)

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending December 2010, net revenue from all taxes deposited to State funds totaled \$6.299 billion, an increase of \$80.7 million (1.3%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$32.4 million, 1.2%) – The rate of growth in individual income tax receipts remains positive.
- Sales/Use Tax (positive \$63.1 million, 3.0%) – The annual rate of growth in net sales/use tax revenue has not been this high since January 2009 (3.4%).
- Corporate Income Tax (negative \$11.4 million, -4.9%) – Over the past 12 months, gross corporate tax receipts declined \$15.6 million, while corporate tax refunds decreased \$4.2 million.
- Fuel Tax (positive \$6.1 million, 1.4%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 2.7% while taxable diesel sales increased 5.9%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are still 5.4% lower than the March 2008 peak sales level.
- Gambling Tax (negative \$11.5 million, -4.0%) – According to Racing and Gaming Commission statistics, 10 of Iowa's 17 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending December 2010. The combined AGR growth for the 17 facilities was negative 0.9% over the period and annual AGR growth has not been positive since May 2009.
- Cigarette and Tobacco Tax (negative \$2.6 million, - 1.1%)

- Insurance Premium Tax (positive \$18.9 million, 23.9%) – The increase is likely the result of fewer redemptions of tax credits compared to last year.

### **Tax Spotlight – Other Taxes**

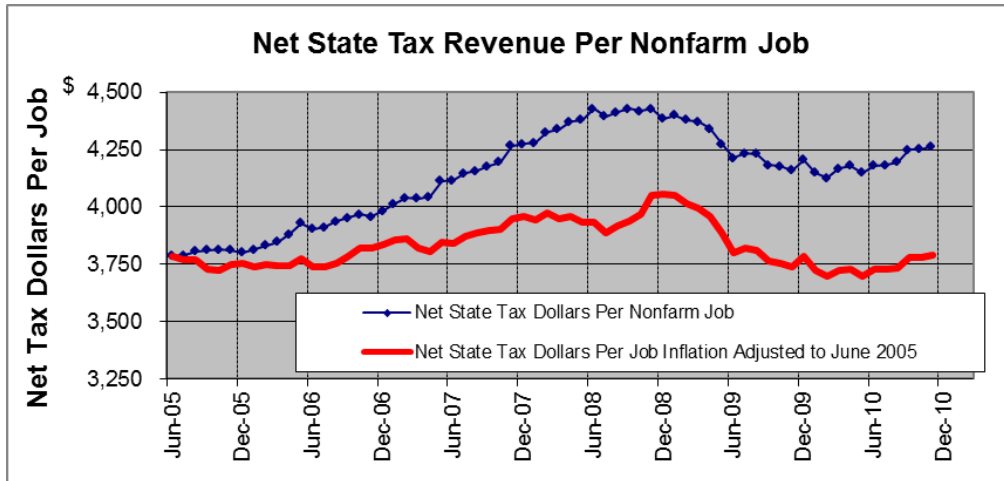
The “Other Tax” category includes the following net tax collections:

- Brucellosis Eradication Property Tax – This statewide property tax is administered under the authority of Iowa Code Section 165.18. The Secretary of Agriculture sets a property tax rate not to exceed \$0.3375 per \$1,000 of taxable valuation to cover expenses estimated to be paid through the Brucellosis and Tuberculosis Eradication Fund for the following fiscal year. For FY 2011, the property tax rate was \$0.0034 per \$1,000. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$371,000 over the most recent 12-month period.
- Drug Stamp Tax – This excise tax is administered by the Department of Revenue under the authority of Iowa Code Chapter 453B. The tax is imposed on dealers of marijuana and other controlled substances. Rates range from \$5.00 per gram of marijuana to \$750 for each unprocessed marijuana plant. Funds received from the Drug Stamp Tax are deposited to the General Fund. The tax raised \$154,000 over the most recent 12-month period.
- Utility Replacement Property Tax – This statewide property tax is administered under the authority of Iowa Code Section 437A.18. The tax rate is established at \$0.03 per \$1,000 of taxable utility company property valuation in the State. Funds generated from this property tax are deposited in the General Fund. The tax raised \$300,000 over the most recent 12-month period.
- Property Tax Relief Fund – Under certain circumstances, utility replacement property tax may be deposited to the Property Tax Relief Fund created in Iowa Code Chapter 426B for distribution to counties. During the most recent 12-month period, \$1.3 million in tax was deposited to the Fund.
- Car Rental Tax – This excise tax is administered by the Department of Revenue under the authority of Iowa Code Chapter 423C. The tax rate of 5.0% is imposed on the rental price of an automobile. Funds received from the car rental tax are credited to the Statutory Allocations Fund. The tax raised \$2.6 million over the most recent 12-month period.
- Tax Gap Program – The Department of Revenue transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is a Department initiative designed to improve tax compliance through utilization of technology. A total of \$3.4 million in tax revenue was deposited to the Tax Gap Program over the most recent 12-month period.
- Department of Revenue Operating Appropriation Transfers – Each month the Department of Revenue transfers tax revenue out of the State General Fund and deposits the money to the Department’s operations account. The money is used in the operations budget to fund collections (FY 2011 = \$13.4 million) and streamlined sales tax activities (FY 2011 = \$0.4 million). Although the money is withdrawn as tax receipts, the Department does not redeposit the money as tax revenue, instead depositing the money as “intrastate transfers.” During FY 2010, these transactions artificially reduced reported State tax receipts by a total of \$13.8 million.

### **Tax Revenue and Employment**

The average reading for Iowa nonfarm employment over the 12 months ending November 2010 is 1,472,800 and net State tax receipts over the same twelve months totaled \$6.283 billion, or

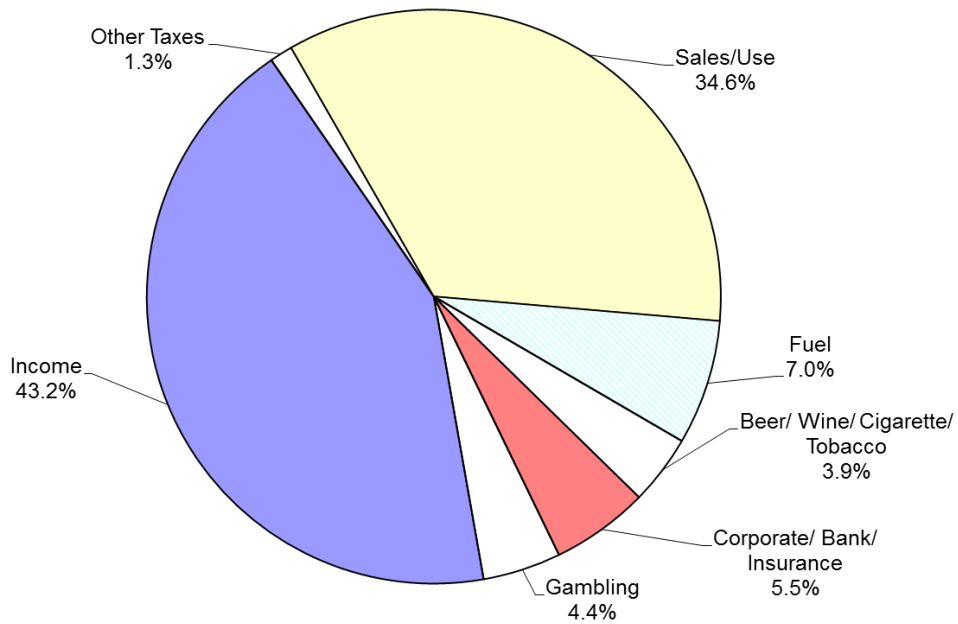
\$4,266 per nonfarm job. This is \$481 (12.7%) higher than the per-job average for the twelve months ending July 2005. Over that same time period, inflation (CPI-U) increased 12.5%. Therefore, tax revenue per job has slightly exceeded the rate of inflation since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job and inflation-adjusted tax collections per job.



## Net State Tax Revenue - Twelve Months Ending December 2010

**Net Revenue = \$6.299 Billion**

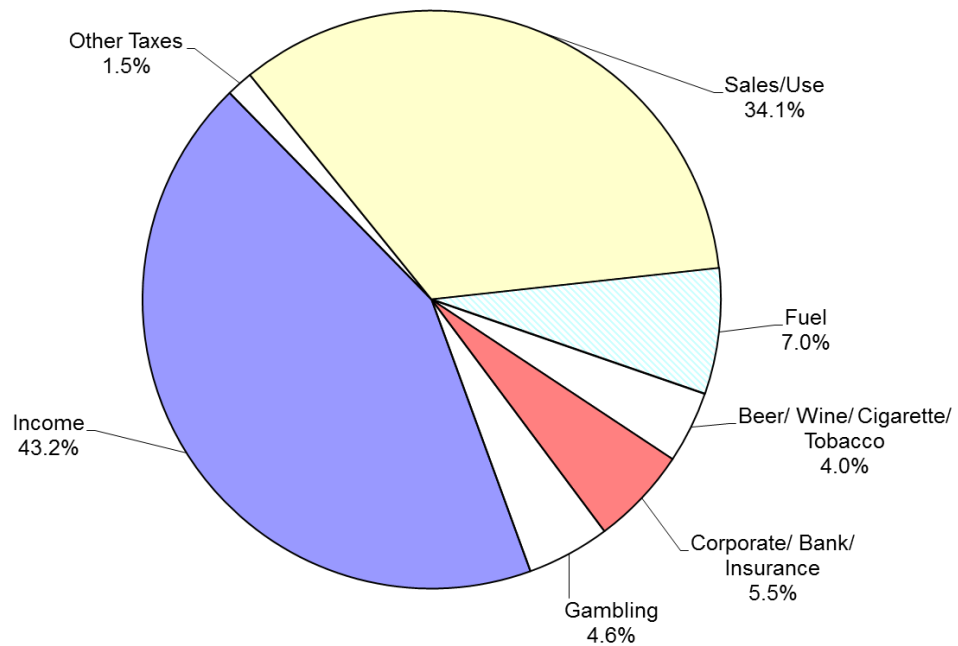
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending December 2009

**Net Revenue = \$6.218 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of December 2009	Month of December 2010	December \$ Change	December % Change
Banking	\$ 29.2	\$ 26.4	\$ - 2.8	-9.6%	\$ 4.3	\$ 4.4	\$ 0.1	2.3%
Beer & Wine	21.1	21.3	0.2	0.9%	1.6	1.8	0.2	12.5%
Cigarette & Tobacco	228.6	226.0	- 2.6	-1.1%	20.2	15.6	- 4.6	-22.8%
Corporate Income	233.2	221.8	- 11.4	-4.9%	30.3	24.4	- 5.9	-19.5%
Fuel	437.0	443.1	6.1	1.4%	41.9	41.0	- 0.9	-2.1%
Gambling	288.9	277.4	- 11.5	-4.0%	23.6	23.7	0.1	0.4%
Individual Income	2,688.7	2,721.1	32.4	1.2%	226.2	238.4	12.2	5.4%
Inheritance	69.8	63.2	- 6.6	-9.5%	5.4	7.3	1.9	35.2%
Insurance	79.0	97.9	18.9	23.9%	0.0	0.0	0.0	--
Other Taxes	9.8	5.2	- 4.6	-46.9%	0.8	1.0	0.2	25.0%
Real Estate Transfer	13.6	13.1	- 0.5	-3.7%	1.1	1.1	0.0	0.0%
Sales/Use	2,119.4	2,182.5	63.1	3.0%	140.5	153.6	13.1	9.3%
<b>Total Net Taxes</b>	<b>\$ 6,218.3</b>	<b>\$ 6,299.0</b>	<b>\$ 80.7</b>	<b>1.3%</b>	<b>\$ 495.9</b>	<b>\$ 512.3</b>	<b>\$ 16.4</b>	<b>3.3%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,503.8	\$ 7,522.6	\$ 18.8	0.3%	\$ 564.4	\$ 574.5	\$ 10.1	1.8%
Tax Refunds	\$ - 1,285.3	\$ - 1,223.6	\$ 61.7	-4.8%	\$ - 68.4	\$ - 62.2	\$ 6.2	-9.1%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,286.7	\$ 5,336.1	\$ 49.4	0.9%	\$ 412.7	\$ 448.6	\$ 35.9	8.7%
Road Use Tax Fund	\$ 694.5	\$ 710.4	\$ 15.9	2.3%	\$ 58.9	\$ 62.2	\$ 3.3	5.6%
Non-GF Gambling	\$ 221.3	\$ 234.7	\$ 13.4	6.1%	\$ 23.4	\$ 0.9	\$ - 22.5	-96.2%
Other State Funds	\$ 16.0	\$ 17.8	\$ 1.8	11.3%	\$ 1.0	\$ 0.7	\$ - 0.3	-30.0%
<b>Local Option Taxes *</b>	<b>\$ 786.6</b>	<b>\$ 789.3</b>	<b>\$ 2.7</b>	<b>0.3%</b>	<b>\$ 65.9</b>	<b>\$ 67.3</b>	<b>\$ 1.4</b>	<b>2.1%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited in the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is now referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.